

AN OVERVIEW OF SAN FRANCISCO'S DEBT

prepared by the San Francisco Controller

BACKGROUND

WHAT IS BOND FINANCING? Bond financing is a type of long-term borrowing used to raise money for projects. The City receives money by selling "bonds" to investors. The City must pay back to the investors the amount borrowed along with interest.

The money raised from bond sales is used to pay for large capital projects such as fire and police stations, libraries and major earthquake repairs. The City uses bond financing mainly because these buildings will last many years and their large dollar costs are difficult to pay for all at once.

Types of Bonds. There are two major kinds of bonds -- Revenue and General Obligation.

Revenue bonds are paid back from revenues generated by bond-financed projects. For example, the airport can finance a major expansion through revenue bonds which will be paid back from landing fees charged to airlines that use the improvements.

General Obligation bonds are used to pay for projects that benefit citizens but do not raise revenue (for example: police stations and jails, libraries, major park rehabilitation or cultural facility projects). General Obligation bonds must be approved by the voters. Once they are approved and sold, they are repaid by property taxes.

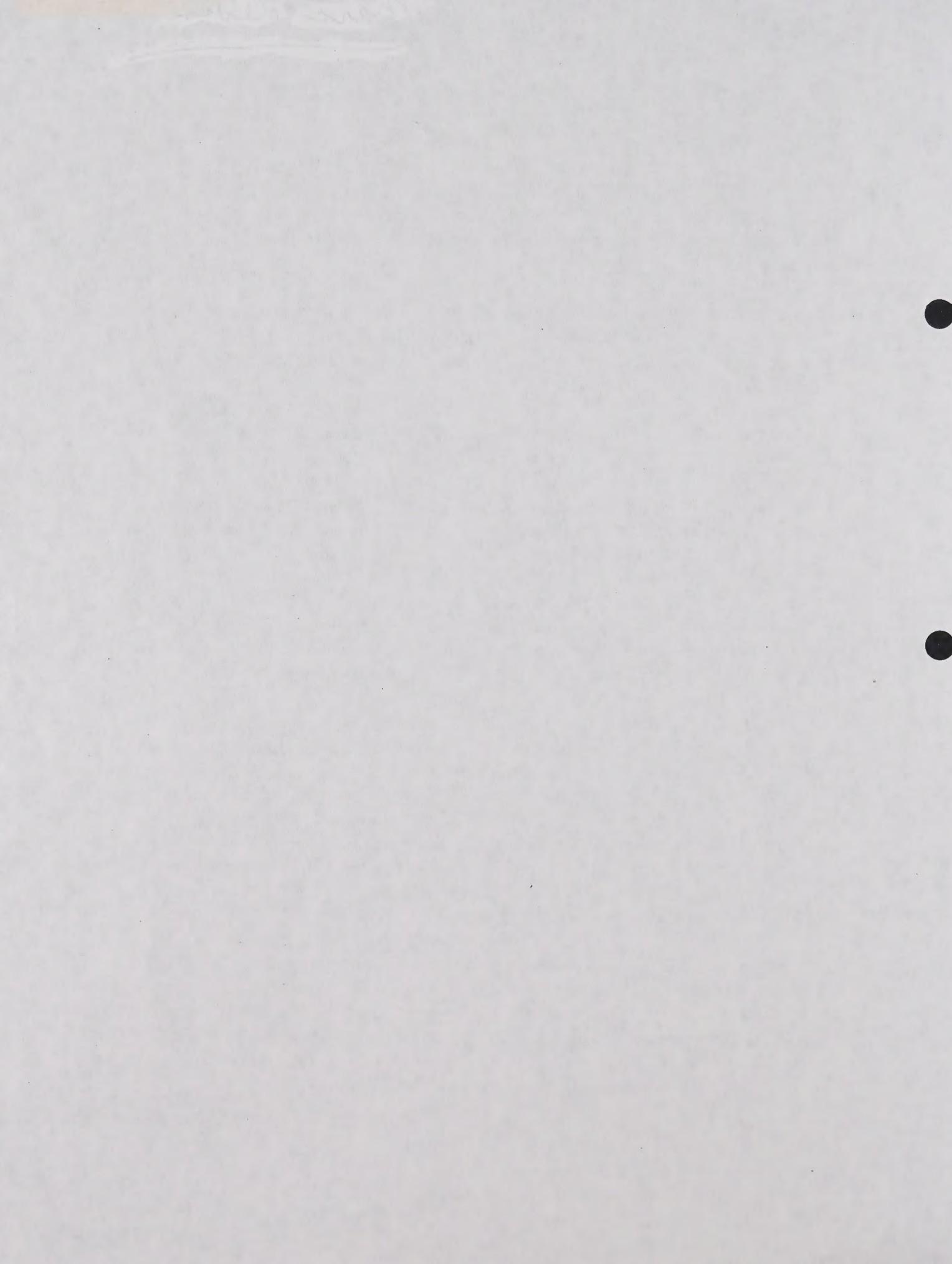
WHAT IS LEASE FINANCING? The City sometimes also asks the voters for permission to enter into *lease financing arrangements*. These arrangements exist when the City wants to borrow money, but intends to pay it back through its regular revenues. This means the City is not asking the voters to increase their property taxes or other specific revenue like water bills to pay for this debt. For example, the City enters into lease financing arrangements to buy police cars, fire trucks and other large equipment. We borrow the money through a separate Finance Corporation, pay a lease for three or four years and then own the vehicles or equipment. This allows the City to spread out the cost of assets that will last for several years or more.

At times we also enter into lease financing arrangements for major projects and the repayment is taken into consideration when the Mayor and the Board raise certain taxes. For example, the new 911 Center lease financing was approved by the voters with an expectation that a new 911 fee on phone service would be the source of repayment. On this March, 1996 ballot, Proposition A for the lease financing of Moscone Convention Center expansion is expected to be paid for by an increase in the Hotel Tax rate.

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WHAT DOES IT COST TO BORROW? The City's cost for borrowing depends on the interest rate paid on the debt and the number of years over which it is paid. Most large debt is paid off over a period of 10 to 20 years. Assuming an interest rate of 6%, the cost of paying off debt over 20 years is about \$1.65 for each dollar borrowed -- \$1 for the dollar borrowed and 65 cents for the interest. These payments, however, are spread over the 20-year period, and so the cost after adjusting for inflation reduces the effective cost because future payments are made with cheaper dollars. Assuming a 4% future annual inflation rate, the cost of paying off debt in today's dollars would be about \$1.15 per \$1 borrowed.

THE CITY'S CURRENT DEBT SITUATION

Legal Debt Limit. As of June 30, 1995, there was about \$1.3 billion of general obligation debt authorized by the voters and either outstanding or unissued. Of this total, \$640 million has been issued and is outstanding, leaving \$630 million authorized to be issued in the future. The amount of bonds issued is less than the amount authorized since the City only issues the amount of debt that it needs at a given time.

The City Charter imposes a limit on the amount of debt the City can have outstanding at any given time. That limit is 3% of the assessed value of real and personal property in the City and County. The current limit is about \$1.7 billion, so the City is well within the legal debt limit.

Debt payments. Total general obligation bond "debt service" during 1995-96 should be \$73.6 million. ("Debt Service" is the annual repayment of a portion of monies borrowed plus the interest owed on all outstanding bonds). This is paid by assessing 14.1 cents on every \$100 of assessed property tax value. This means that a property owner with an assessed valuation of \$250,000 would pay about \$353 this year for debt service on the City's outstanding general obligation bonds (and \$2,500 for general City operations, schools, community college, children's fund, library fund, open space and other government purposes -- for a total tax bill of \$2,853).

Prudent Debt Limit. Even though the City is well within its legal debt limit in issuing general obligation bonds, there is another "prudent" debt calculation made by bond rating agencies when they review the City's financial health. These agencies look at both the general obligation debt and any other debt which uses the City's tax base-- including lease financing obligations and even the City's share of debt for the Bay Area Rapid Transit District. Financially healthy cities with good bond ratings typically have low to moderate debt outstanding relative to their assessed property values (called the debt ratio).

The City currently has moderate debt by rating agency standards. Each time we ask the voters to approve debt, we try to forecast what that will do to our debt ratio. All bonds previously authorized by the voters plus the lease financing on this March, 1996 ballot could be issued and the City would still have "moderate" debt. However, the City

in questi casi gli altri di "fatturazione" sono riconosciuti.

Il più difficile è invece quello di stabilire se una spesa è costituita da un impegno o da un'effettiva spesa per il quale non è stata fatta la corrispondente liquidazione.

Infatti, se ad esempio si ha una spesa per imposta di 100 lire, ma non si ha ancora ricevuto il bollino, questa spesa non può essere riconosciuta come effettiva.

Per questo motivo le imposte sono spese che non possono essere riconosciute come effettive, se non si ha ancora ricevuto il bollino.

Provvedere alla liquidazione

NOTA TECNICA DELL'IMPRESA

Le imposte sono da pagare nel periodo di 100 giorni dalla fine dell'esercizio fiscale, cioè dal 1° gennaio al 31 dicembre.

Se si ha un impegno per imposte, ma non si ha ancora ricevuto il bollino, non si deve riconoscere questa spesa come effettiva.

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is approaching a level of debt that would be considered high by rating agencies. City officials are currently discussing which priority borrowings should be done in the future and still allow the City to maintain good credit ratings.

MEASURES ON THIS BALLOT

Proposition A on this ballot would have no impact on the legal debt limit or on property taxes. As a lease financing it would be included in a calculation of the City's prudent limit. If Proposition A is passed and implemented, the City would continue to have moderate debt.

Edward Harrington
Controller.

will have no right of action against him if he did not know of the existence of
any such right or had no reason to believe that there was any such right.

Article 13. *Right of action against a person who has been wronged by another*.

If a person who has been wronged by another has a right of action against
the wrongdoer, he may sue the wrongdoer and the person who has been wronged

in his own name.

CIAC STAFF ANALYSIS

DEPARTMENT:

Citywide

AGENDA ITEM:

Prioritization of Future Tax Supported Debt Issues

BACKGROUND:

The City is fast reaching its prudent debt limit of 2.4%. In fact, with the addition of the Moscone Expansion debt, it is projected that the City will exceed that limit in 1998. An increase in the prudent debt limit to 2.8% has been discussed by members of the CIAC, with some members feeling that such an increase is prudent only if a prioritization of future tax supported debt is made. The purpose of this document is to provide a forum for the discussion of priorities.

DISCUSSION:

Pages 3 and 4 of the attachments to this report detail the various bond issues which have been proposed for tax-supported debt. Issues are listed in proposed priority order. These priorities are based on discussions previously held by the CIAC.

Public Safety-Essential Buildings

This category of projects focuses on projects in essential City buildings which are needed because of safety problems in the buildings.

San Bruno Jail

The facility is in terrible condition and may soon be the subject of a court order to either replace or abandon. The amount shown is the Sheriff's latest estimate based on a smaller facility.

Youth Guidance Center

Similar to the Jail, this facility is also not appropriate for its function. The amount shown has been increased by the department to reflect inflationary costs and due to a desire for a larger facility.

C-MED Building Acq

The City may have the ability to purchase the building currently housing the Paramedics Division of the Health Department. An alternative PSAP (911 answering facility) can be placed in this facility. This issue would be funded through an issue of COPs.

Hall of Justice

The jail facilities on the upper floors need to be replaced or improved and the building as a whole suffers from seismic and air handling problems. The Police Department has requested that \$79 million be considered in this review for a new Police Headquarters Building. The total cost to replace the Hall of Justice would be considerably more than this amount, however.

Economic Development

This category is new. The projects reflect needs which the City has which, over time, will improve the economic climate in the City.

Moscone Center Expansion This project is needed because conventions are starting to outgrow the existing Moscone Center. The City's tourism industry and economy would suffer if this project is not undertaken. This would be funded by a lease revenue bond supported by the General Fund. The revenues lost by the General Fund would be reimbursed by a 2% increase in the Hotel Tax rate.

Affordable Housing While some might argue that affordable housing is not economic development, staff feels that it is important for the City's long term economic viability to have housing that service workers can afford.

Public Safety-Non-Essential Buildings/Projects

The projects in this category are generally the same as those in the first category. The difference is that staff feels that these buildings are not essential public facilities.

ESP III This request would fund the seismic renovation and general improvement of 15-20 buildings, mainly recreational facilities and branch libraries. These buildings all have seismic hazard ratings of 3 and 4.

deYoung Museum The deYoung Museum has a seismic hazard rating of 3, but only because of some temporary reinforcement which was done with private funds. Without that support, the building would be rated a 4. ESP III is recommended for a higher priority only because there are a greater number of buildings, many of which are routinely used by large numbers of children.

Recreation and Park Facils Two of the facilities on this list (Hamilton and Portola Rec Centers) are already included in ESP III. However, the costs shown for this project include the costs of those two facilities. In addition to major work in various recreation centers, this project would fund asbestos and lead paint abatement in a large number of facilities and would replace dangerous playground equipment.

Schools/COLLEGES The amount and scope of work for this project is unknown at this time.

186. *Massachusetts*
and older than 100, there will now be no more than
one in every hundred thousand live and two dozen in
every million.

Whether or not this is the case is not known, but
the present trend is likely to result in a further
lessening of the number of old people. The
older people are less likely to live longer, and
as they die, the number of old people will be
lessened.

There is no record of the number of old people
in the United States at any time, but it is estimated
that about 1,000,000 are now living.

Old people are not necessarily infirm, but
they are often infirm, and infirm old people
are often infirm, and infirm old people are
often infirm.

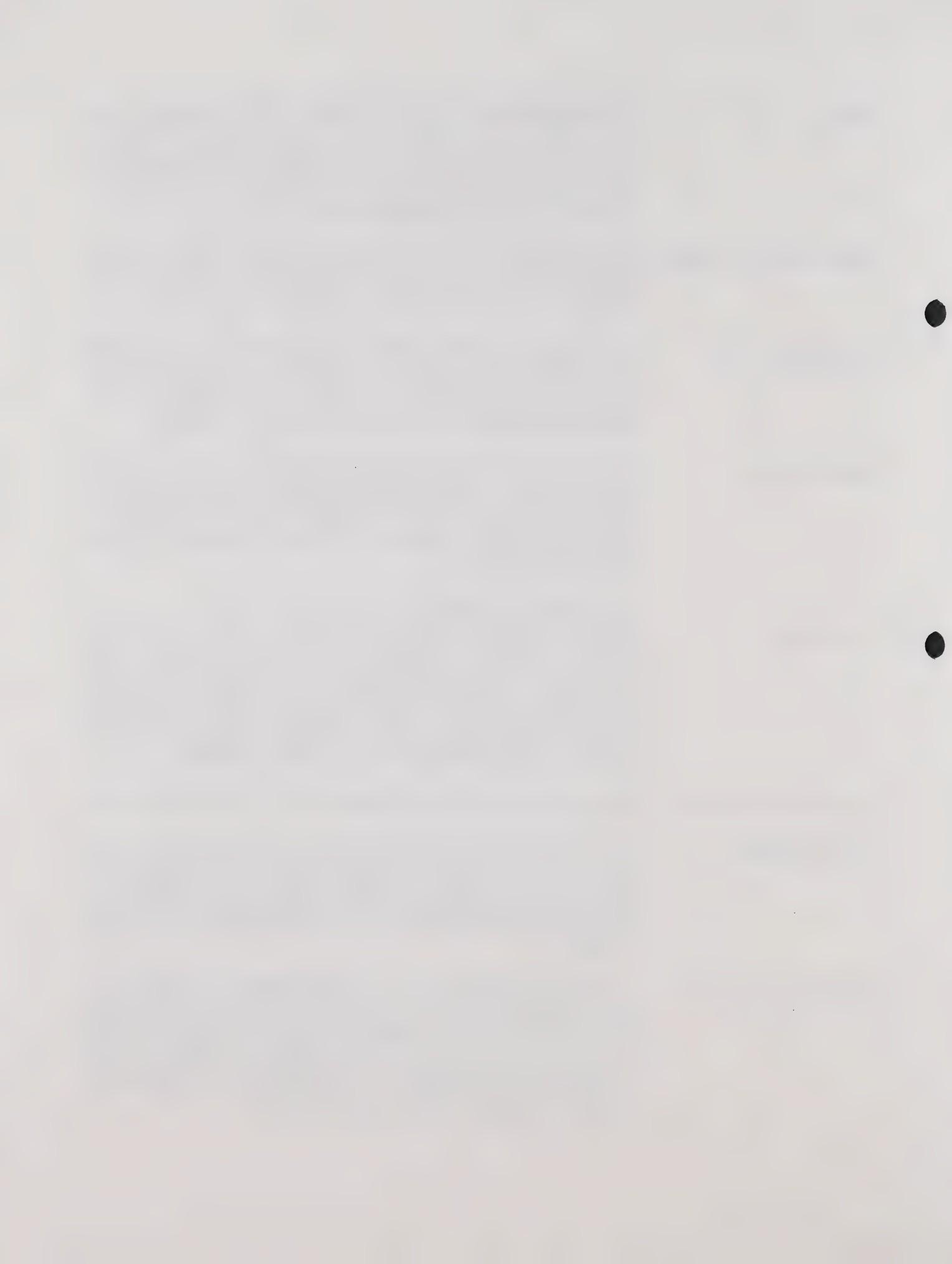
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- AWSS** Originally thought to be on the March, 1996 ballot, this issue would fund the renovation and replacement of the Fire Department's high pressure water supply system. It is possible that this could be funded through a joint Water/Cleanwater bond issue, thus taking it out of tax supported debt.
- Streets, Sidewalks, Lighting** This bond issue failed at the ballot some years ago. However, the need still remains. Alternative funding for this project does not appear to be available from Federal, State or Local sources.
- Underground Tanks** This bond issue failed on the November, 1995 ballot. The need still remains. There may be a method for obtaining State or Federal funds for the cleanup. However, if alternatives are not available, the deadlines may require the use of GO bonds.
- General Hospital** The old brick buildings on the hospital campus have seismic hazard ratings of 3 and 4. Hospital staff has asked that these buildings not be included in ESP III. CIAC staff has given this project a relatively low priority mainly due to the lack of a program coming from Hospital staff.
- Laguna Honda**
- Non-Public Safety Projects**
- If San Francisco is to continue to provide long term care at this facility, it needs to be upgraded to meet existing codes. The facility is currently operating on a waiver regarding ward size. While the facility itself is part of the City's emergency plan, staff does not feel that the work envisioned in this project is as high a priority in terms of safety as those in the first category.
- Mental Health Facilities** There was not a great deal of information available for this project.
- Cultural Facilities** This is the remainder of Proposition A from a few years ago. The Asian Art and Academy of Sciences components of this project have since been approved. What remains are the Neighborhood Cultural Facilities, the Exploratorium and the Gay/Lesbian Cultural Facility.
- Zoo Improvements** As part of the agreement with the Zoological Society regarding operations, the City agreed to place a \$20 million bond issue on the ballot within five years. Staff's understanding is that the bond would have to be placed on the ballot by the November, 1997 election to meet the terms of this agreement. Given other concerns, staff feels that this is a low priority.



Other Projects

These are projects which did not fit easily into any other category.

Stadium for Giants

As advertised, the proposal for the March, 1996 ballot does not include any tax supported debt. Staff has not reviewed the proposal as of this writing and, so, cannot verify whether this assertion is true or not.

49er Stadium/Superbowl

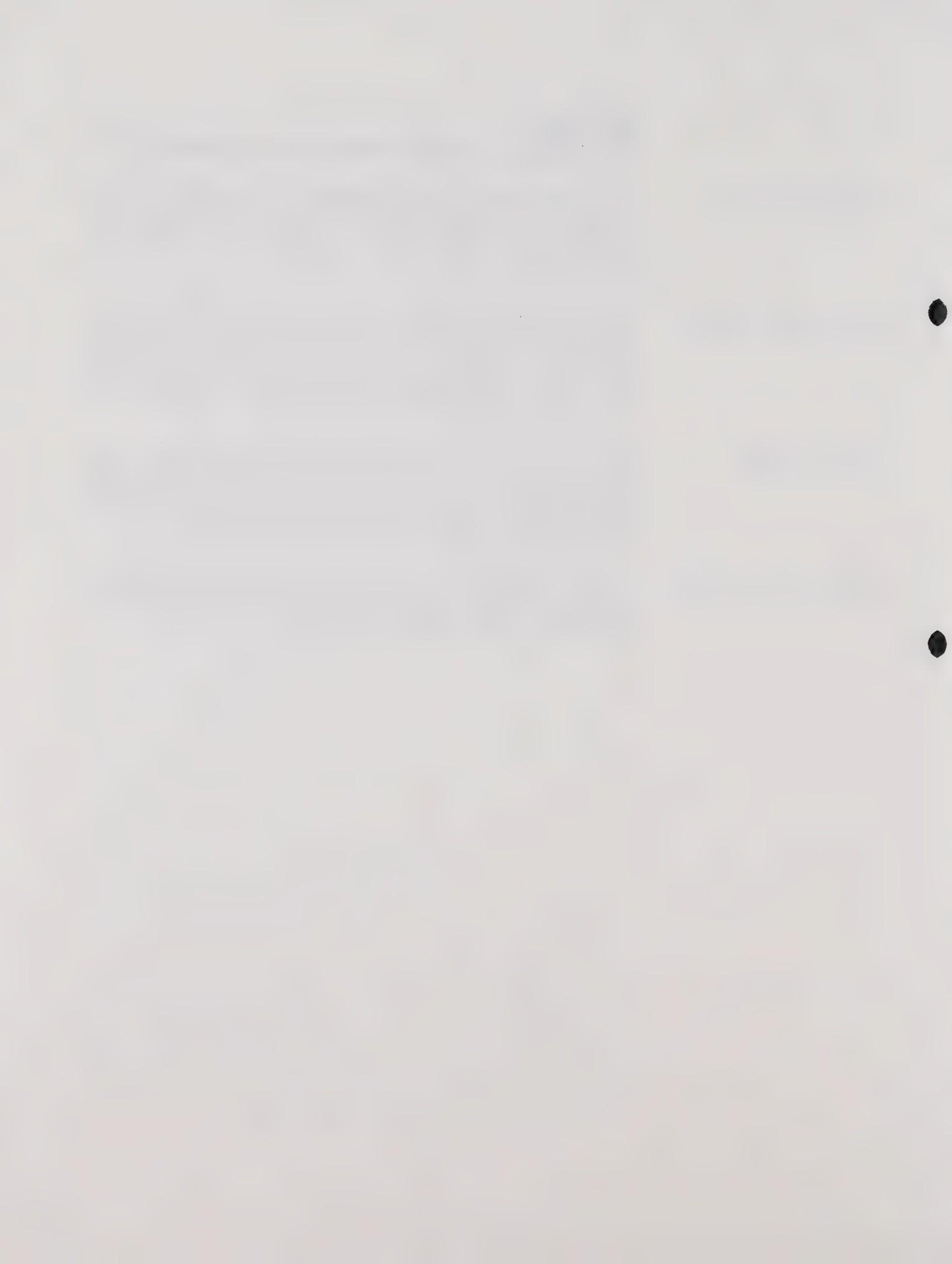
At various times over the past year, there has been talk of a bond issue to either improve 3-Com Park for the Superbowl or to use the funds which would have been used for that improvement as seed money for a new stadium. The most common amount given for such an issue is between \$15 and \$25 million.

CONCLUSIONS:

The City has far more needs (\$1.3 billion+) than it has available capacity at either the existing 2.4% limit or the 2.8% limit. Staff agrees that the limit needs to increase, but also feels that this must be done in conjunction with a prioritization of issues.

RECOMMENDATIONS:

Review the list of priorities and forward a final list to the Mayor and Board of Supervisors with a recommendation that the prudent debt limit be increased from 2.4% to 2.8%.

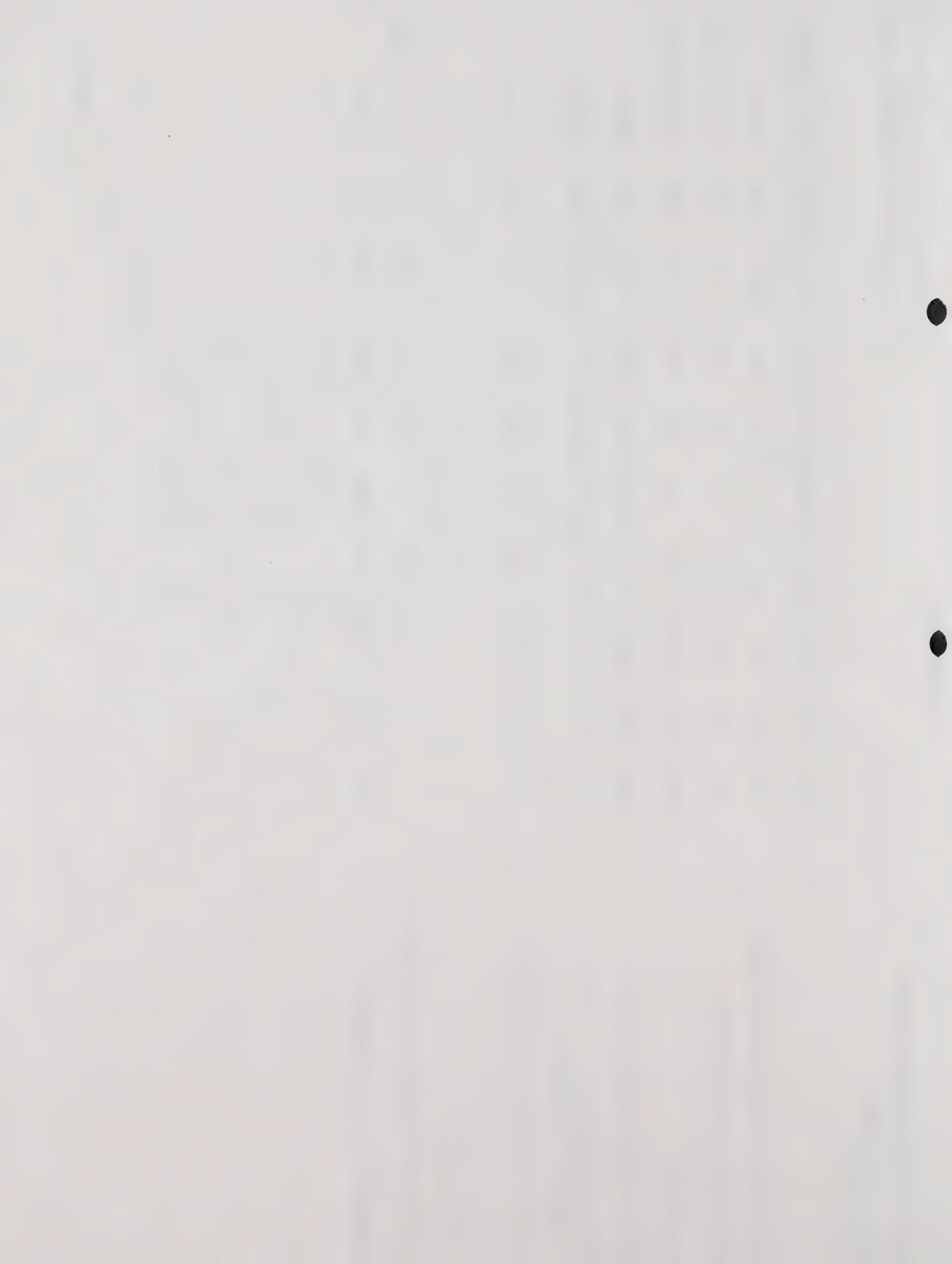


City and County of San Francisco
 Debt Capacity Model
 as of December 1, 1995
 (millions)

Current Situation

3% AV Growth Model

	FY 96	FY 97	FY 98	FY 99	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	TOTAL
1 Outstanding Tax-Supported Debt at Beginning of FY	1,114.9	1,212.9	1,292.4	1,346.7	1,354.7	1,314.3	1,280.9	1,242.3	1,208.7	1,170.0	
2 Issuance of Bonds Authorized to Date (1)	153.0	137.3	129.0	81.0	32.5	41.0	41.0	41.0	41.0	41.0	737.8
3 Retirement of Debt	(55.0)	(57.7)	(74.8)	(73.0)	(72.8)	(74.5)	(79.6)	(74.6)	(79.6)	(81.9)	(723.6)
4 Outstanding Tax-Supported Debt at End of FY	1,212.9	1,292.4	1,346.7	1,354.7	1,314.3	1,280.9	1,242.3	1,208.7	1,170.0	1,129.2	
5 Estimated Net Assessed Value at Growth Rate of 3% Annually	53,777.9	55,391.2	57,053.0	58,764.6	60,527.5	62,343.3	64,213.6	66,140.0	68,124.2	70,168.0	
6 Tax-Supported Debt as % of Net Assessed Value	2.26%	2.33%	2.36%	2.31%	2.17%	2.05%	1.93%	1.83%	1.72%	1.61%	
Remaining Debt Capacity											
7 Additional Debt Capacity at Maximum Prudent Debt Limit	10.0	15.0	30.0	85.0	75.0	85.0	80.0	85.0	90.0	555.0	
8 Tax-Supported Debt as % of Net Assessed Value	2.26%	2.35%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	



ity and County of San Francisco
 projected Issuance of Authorized Bond Issues
 as of December 1, 1995
 (in millions)

Current Situation

General Obligation Bonds

Purpose	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Subtotal	After FY 2005
Public Safety Improvements (ESP I)			7.6								7.6	
Public Safety Improvements (ESP II)	18.4										18.4	
Golden Gate Park Improvements	26.0		15.0	15.0	12.2						68.2	
Seismic Safety Loan Program		35.0		35.0		35.0	35.0	35.0	35.0	35.0	245.0	70.0
Fire Station Improvements		14.3									14.3	
Public School Improvements		25.0		25.0	14.3						64.3	
San Art Museum	12.0	4.4	25.3								41.7	
City Hall Improvements	63.6										63.6	
Aquarium Improvements		3.0	26.2								29.2	

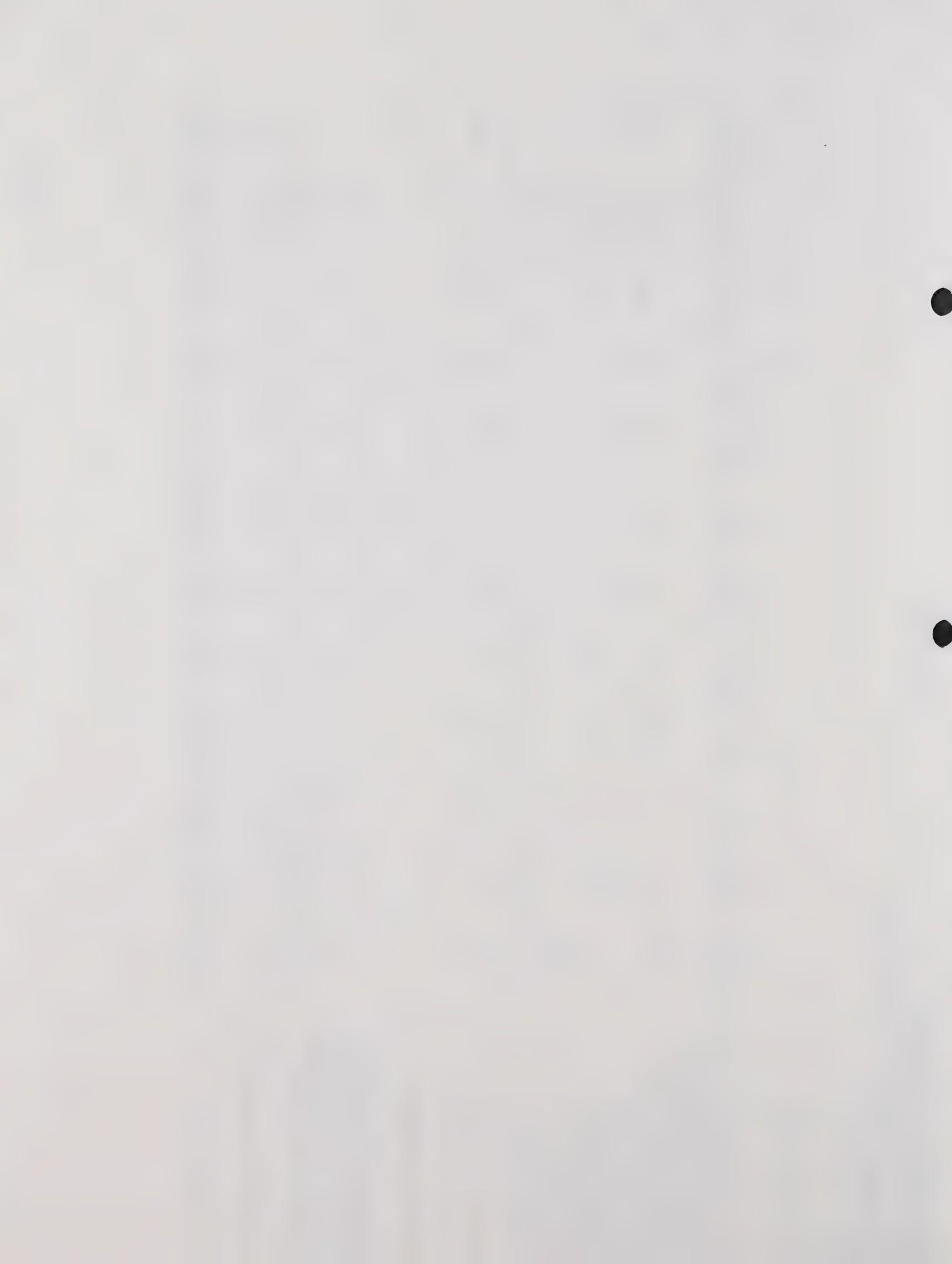
Subtotal - General Obligation Bonds 120.0 89.3 66.5 75.0 26.5 35.0 35.0 35.0 35.0 35.0 552.3 70.0

Other Tax-Supported Debt Issues

Mexican Museum - Hotel Tax Bonds		8.5									8.5	
F. Finance Corp - Equipment Bonds	13.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	67.0	
F. Finance Corp - 800 Mghz System		13.5	36.5								50.0	
F. Finance Corp - 911 System	20.0	20.0	20.0								60.0	

Subtotal - Other Tax-Supported Debt 33.0 48.0 62.5 6.0 6.0 6.0 6.0 6.0 6.0 6.0 185.5 0.0

Authorized Bonds to Date 153.0 137.3 129.0 81.0 32.5 41.0 41.0 41.0 41.0 41.0 737.8 70.0



Staff Recommendations for Future Tax Supported Bond Measures
(In millions)

Program	Amount	Dept Prop Election Date	CIAC Prop Election Date	Fiscal Year of Bond Issuance									
				1997	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
Public Safety - Essential Buildings													
1 San Bruno Jail	\$ 100.0	Nov-96	Nov-96	20.0		80.0							100.0
2 Youth Guidance Center	115.0		Nov-97		18.0		97.0						115.0
3 C-MED Building Acquisition	10.0		N/A	10.0									10.0
4 Hall of Justice	Unknown		Nov-97										-
Economic Development													
5 Moscone Center Expansion	157.5	Mar-96	Mar-96		157.5								157.5
6 Affordable Housing	100.0	Nov-96	Nov-96	20.0	20.0	20.0	20.0	20.0					100.0
Public Safety - Non-Essential Buildings/Projects													
7 Earthquake Safety Program III	100.0	Nov-96	Jun-98		20.0	40.0	40.0						100.0
8 deYoung Museum	100.0	Nov-96	Jun-98		20.0	80.0							100.0
9 Recreation and Park Facilities	52.5		Nov-98		10.0			42.5					52.5
10 School District/Community College Facilities	Unknown		Nov-98										
11 Expansion/Repair of AWSS	35.0	Nov-96	Nov-99		17.0	18.0							35.0
12 Streets, Sidewalks, & Lighting	68.0		Nov-99		14.0	27.0	27.0						68.0
13 Underground Storage Tanks	40.0		Nov-96	40.0									40.0
14 Auxiliary Buildings - SFGH	150.0		Nov-99					15.0	35.0	50.0	50.0		150.0
Non-Public Safety Projects													
15 Laguna Honda Hospital	250.0	Nov-96	Nov-00		20.0	50.0	60.0	60.0	60.0	60.0		250.0	
16 Mental Health Facilities	25.0		Nov-01			5.0	20.0						25.0
17 Cultural Facilities Improvements	29.0		Nov-01				6.0	11.5	11.5				29.0
18 Zoo Improvements	20.0		Nov-97	5.0	15.0								20.0
Other Proposals													
19 New Stadium for Giants	N/A	Mar-96											
20 New Stadium/Superbowl Improvements for 49ers	Unknown	Nov-96											
TOTAL	\$ 1,352.0			90.0	200.5	165.0	268.0	182.5	123.0	141.5	121.5	60.0	1,352.0

**Incremental Impact on Debt Ratios of Future Tax-Supported Debt Projects
Based on City's Debt Capacity Model
(Assumes NAV grows at 3% annually)**

As of 1/1/96

Program	Amount (in millions)	Fiscal Year									
		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Current Debt Ratio Forecast		2.26%	2.33%	2.36%	2.31%	2.17%	2.05%	1.93%	1.83%	1.72%	1.61%
Public Safety - Essential Buildings											
1 San Bruno Jail	\$ 100.0		0.04%	0.04%	0.17%	0.17%	0.16%	0.16%	0.15%	0.15%	0.14%
2 Youth Guidance Center	115.0			0.03%	0.03%	0.19%	0.18%	0.18%	0.17%	0.17%	0.16%
3 C-MED Building Acquisition	10.0		0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.01%	0.01%
4 Hall of Justice	Unknown										
Economic Development											
5 Moscone Center Expansion	157.5			0.28%	0.27%	0.26%	0.25%	0.25%	0.24%	0.23%	0.22%
6 Affordable Housing	100.0		0.04%	0.07%	0.10%	0.13%	0.16%	0.16%	0.15%	0.15%	0.14%
Subtotal - Cumulative Forecast	482.5	2.26%	2.42%	2.79%	2.89%	2.94%	2.83%	2.69%	2.56%	2.43%	2.30%
Public Safety - Non-Essential Buildings/Projects											
7 Earthquake Safety Program III	100.0				0.03%	0.10%	0.16%	0.16%	0.15%	0.15%	0.14%
8 deYoung Museum	100.0				0.03%	0.17%	0.16%	0.16%	0.15%	0.15%	0.14%
9 Recreation and Park Facilities	52.5				0.02%	0.02%	0.08%	0.08%	0.08%	0.08%	0.07%
10 School District/Community College Facilities	Unknown										
11 Expansion/Repair of AWSS	35.0					0.03%	0.06%	0.05%	0.05%	0.05%	0.05%
12 Streets, Sidewalks, & Lighting	68.0					0.02%	0.07%	0.11%	0.10%	0.10%	0.10%
13 Underground Storage Tanks	40.0		0.07%	0.07%	0.07%	0.07%	0.06%	0.06%	0.06%	0.06%	0.06%
14 Auxiliary Buildings - SFGH	150.0						0.02%	0.08%	0.15%	0.22%	0.21%
Non-Public Safety Projects											
15 Laguna Honda Hospital	250.0						0.03%	0.11%	0.20%	0.28%	0.36%
16 Mental Health Facilities	25.0							0.01%	0.04%	0.04%	0.04%
17 Cultural Facilities Improvements	29.0							0.01%	0.03%	0.04%	0.04%
18 Zoo Improvements	20.0			0.01%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Other Proposals											
19 New Stadium for Giants	N/A										
20 New Stadium/Superbowl Improvements for 49ers	Unknown										
TOTAL - Cumulative Forecast	\$ 1,352.0	2.26%	2.50%	2.87%	3.08%	3.37%	3.51%	3.54%	3.60%	3.61%	3.54%

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